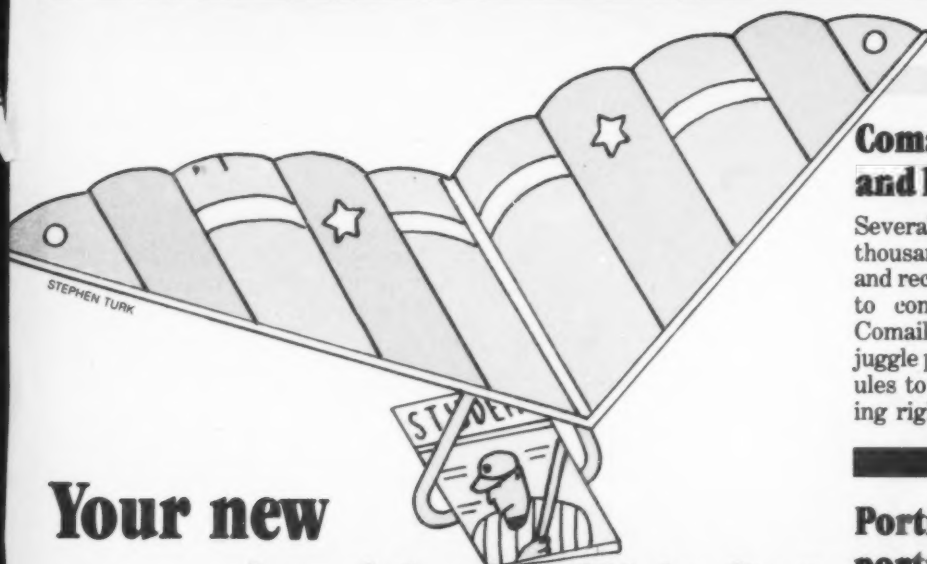


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JULY 1988

THE MAGAZINE FOR MAGAZINE MANAGEMENT

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of making it work. Even though the odds of get-
re small, of surviving still smaller, and of get-
n worse, the odds don't discourage many
ntrepreneurs. Your chances are much better if
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e forecast summit

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gathered at a recent
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It's not who Annie Leibovitz photographs, it's *how* she photographs that makes her work unusual, arresting—unforgettable. The award-winning photographer for *Rolling Stone* and, currently, *Vanity Fair* talks about recent changes in her approach. 47

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For the first time, nonprofit rates are being questioned. Heating up the controversy: Business magazines charge that nonprofits have an unfair competitive advantage. Nonprofits have some good arguments—and lots of clout.

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Are publishers neglecting the reader to maintain a rate base that satisfies advertisers? Single-copy consultant Ron Scott says yes. "We are riding a dangerous tiger—and the tiger is getting hungry," he argues.

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ADI network targets spot markets

National titles entice new advertisers with regional buys

Working Woman/McCall's Group and People are in hot pursuit of newspaper and local/spot television ad budgets. The groups have created a women's print network, ADI Networks, that offers virtual blanket coverage in 10 regional markets.

Many observers are impressed with the broad reach claimed by ADI Networks, which recently introduced its Women's Lifestyle Network. Combined circulation in the network's 10 markets is greater than 2.2 million, through newsstands and subscriptions. With the four magazines—Working

Woman, Working Mother, McCall's and People—ADI "has put together a mix that should reach virtually every woman in a particular market," says Bonnie Axthelm, vice president, business development, 3M Media Networks, Inc. (MNI).

Although several national women's networks are marketed by such publishers as Conde Nast and The Hearst Corp., none reaches into local markets. The Lifestyle Network also offers a broader range among local women than the individual spot market buys offered by MNI. That company, founded by Working Woman/McCall's Dale Lang, who sold it in 1977, sells spot ads in participating national magazines.

Prices vary with market

Ad rates in ADI's Lifestyle Network are priced according to the local markets, with CPMs averaging between \$50 and \$60. In Boston, for example, where the ADI rate base is 338,000, a one-time four-color page costs \$16,895. That includes a full page in each of the Working Woman/McCall's monthlies and two pages in weekly People. A six-time buy in Minneapolis/St. Paul, rate base 214,000, costs \$67,800 for 30 full pages. ADI accepts only full-page ads.

An advertiser, claims ADI general manager Floyd Sembler, can run five pages in the Lifestyle Network's national magazines for less than the cost of a full page in the local newspaper.

"This is a way for these magazines to get new advertisers who could normally not afford them," concludes

Michael Gross, vice president, associate media director at J. Walter Thompson.

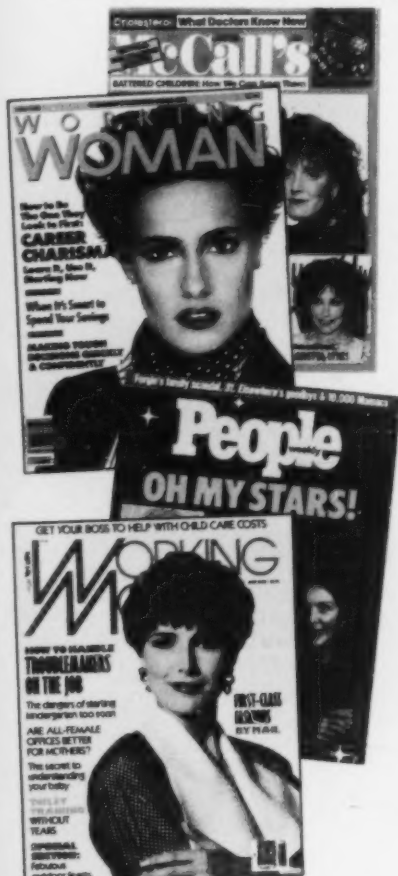
Sembler sees about 50 percent of ADI's ad revenue coming from national advertisers wanting to test new products in local markets, add distributor support or promote heavier sales in a particular market. The network is targeting about 15 ad categories, and food, apparel and book advertisers have shown interest, he says.

The other half of revenues will come from local advertisers, such as auto dealerships and associations, upscale consumer retailers and department store chains. About half that business could be co-op advertising, says Sembler. Available co-op funds, he claims, total \$8 billion.

Participating magazines will spend nothing for the network. ADI will operate as a separate division, selling and producing independent advertising inserts, then supplying printing plant binderies with completed signatures in four-page units. ADI handles all billing and collections and pays the magazines their shares of the revenues.

ADI expects gross revenues to reach \$3 million this year and \$20 million in 1989, when the network will expand to 20 markets.

Outside of ADI, MNI remains the only organization that sells regional market space in national magazines. MNI, now with nine networks, has seen steady but undramatic growth in ad revenue over recent years. Its Home Network, composed of *House Beautiful*, *Metropolitan Home* and the "Super Spot" edition of *Better Homes and Gardens*, competes somewhat with ADI, but has a specific focus on homes.—P.F.



Regional advertisers are expected to be heavy users of the Lifestyle Network.

Media and libel: Rising losses

More than three-quarters of jury trials lost; courts uphold first \$3 million award

The media are increasingly losing libel trials. During the mid 1980s, media defendants in court—including broadcast and print media—lost 72 per-

cent of libel trials, compared to 54 percent during the early part of the decade, according to a study recently released by the Libel Defense Resource Center (LDRC).

Moreover, libel awards have increased. Media defendants now pay about 20 percent more in damages than they did in the early eighties.

The LDRC, a libel research organization supported by media groups, tracked 61 libel trials, at all judiciary levels, from 1984 through 1986. Six of

those trials involved magazines, while 40 involved newspapers.

The greatest factor in deciding libel trials appears to be juries. About 95 percent of all libel trials come before juries, and media defendants lose 78 percent of those cases.

Observers blame the losses, in part, on the fact that many cases are dramatized in the courtroom and many jurors tend to sympathize with the injured, says Henry Kaufman, LDRC general counsel. Furthermore, "Jurors are not fully educated by the lawyers or the judge in the complexities of libel law," he asserts. "The jury can only handle the material given them."

Complicating the matter is the generally poor reputation the media has had in the 1980s. "There's a trend toward not only a dislike of the media, but an open hostility toward it," asserts Glen Evans, president of the American Society of Authors and Journalists. "That is reflected in the outcome of these trials."

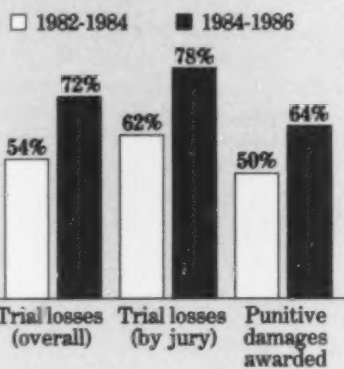
Kaufman, however, is careful to add that his studies have not borne this out. "Although some jurors indicate some preconceptions toward the media," he notes, "we really haven't found that that kind of bias has been a primary factor."

Million dollar awards up

Damage awards during the 1984-86 study period averaged \$1.1 million, down from the \$2 million-plus average of the previous two years. Kaufman is quick to point out, though, that the reduction is misleading: Much of the decline is due to a few exceptionally large awards during the early 1980s. During the mid eighties, in fact, juries awarded a greater number of million dollar awards. More than 40 percent of all damage awards now total \$500,000 or more.

On the positive side, media defendants remain fairly effective at overturning and reducing awards during appeal—where the negative predispositions of a jury do not come into play. During appeal, courts generally subscribe more strictly to rulings, such as *New York Times Co. v. Sullivan*, that give the media greater First Amendment protection, says Harry Johnston, legal counsel for Time Inc. and chairman of LDRC. The *Times* case established the "actual malice" standard for libel cases.

Media losses rising in libel trials



Source: Libel Defense Resource Center

Why the increase in libel losses?

Some blame rising hostility against the press and jury misunderstanding of libel law.

Currently, the average damage award upheld on appeal is \$145,550—nearly a 20 percent increase from the early 1980s.

Until recently, every award over \$1 million had been overturned on appeal. The April decision of *Brown & Williamson v. CBS*, however, allowed the plaintiffs \$3.05 million—some four times larger than any other upheld

award. The case involved a television newscast and commentary on a Federal Trade Commission investigation of an alleged plan by the makers of Viceroy cigarettes to appeal to youthful smokers.

"I don't think it will open the floodgates for multimillion dollar awards," Kaufman says. He adds, however, that, although the libel case was not typical—most cases involve individuals as plaintiffs, not corporations—the million-dollar barrier has been breached.

Many media libel experts were confused by the U.S. Supreme Court's choice not to hear the case and let the award stand. The Supreme Court, in its recent *Hustler v. Jerry Falwell* decision, "reaffirmed the very strong First Amendment principles set down in the past," says Kaufman. "But in practice, the media is not getting the kind of protection you would expect with all of these important principles at stake." The *Hustler* case protected the media from suits involving parodies and "outrageous" speech.

The next LDRC study, Johnston notes, will probably contain fewer libel trials. A recent Supreme Court decision reaffirmed trial judges' ability to dismiss certain libel cases with summary judgment.—P.F.

High-tech services connect readers and advertisers

800 numbers and computer systems expand the power of the print ad

Reader service is moving into the electronics age: Today's readers are not only able to phone for reader service information, but are also able to leave their names and addresses for advertisers, hear recorded messages and receive product information by personal computer. Meanwhile, publishers are using the same service to renew subscriptions and conduct reader research.

New York Woman is the first consumer magazine to use Touch Tone Ads as a merchandising tool, promot-

ing the service for such retailers as Chanel, Ann Taylor, Fratelli Rosetti, Burberry's and Benetton. The round-the-clock 800 number supplies 30 seconds of information on the advertised product. After dialing the magazine's 800 number, readers press the four-digit number of the advertiser they want to contact.

The recorded messages, says Alan Adler, president of Touch Tone Access, keep readers focused far longer than the three to 10 seconds readers generally spend on print ads alone.

The ads help overcome the monthly's "lack of immediacy," explains *New York Woman* publisher Julie Lewit Nirenberg. "Retailers want to be in newspapers, radio or weekly publications." Furthermore, the phone service enables retailers to handle incoming calls more efficiently than is possible

Business press '88

(CONTINUED FROM PAGE 21)

points, based entirely on rate increases.

Penton Publishing, Inc., which has 22 magazines largely in machine industries, is also struggling to make page gains. President Sal F. Marino reports that first quarter ad pages were down 2 percent, but sees the second quarter looking better. He's crossing his fingers that pages will be up slightly, from 35,000 to 36,000, by the end of the year. Ad revenues will be up 8 percent, to \$145 million, he projects.

"What's improving is share of market, not the markets," he says.

And the winners are . . .

Who's doing well? Among the publishers reporting good business is Richard Groves, president, Andrews Communications. For the first six months, ad pages for the company's two electrical titles were up 13 percent and revenues up 20 percent.

And Groves is expecting a better second half. Reasons: improved market share and improved markets.

Pages are up a whopping 30 percent in the first half for Miramar Publishing Co., which has four magazines in the rental equipment, home health care and special events/parties areas. Revenues are up 35 percent, says president Tom Novoselski, who admits he's "making pages on market share."

Furthermore, he adds, "I'm talking revenue, not profits. We've invested a great deal in the ad sales force and promotion to get those pages."

For Edgell Communications Inc., the first quarter was a little slower than projected, but still up from last year, says Richard Moeller, president. Pages for the more than 100 magazines should be up between 3 percent and 5 percent and revenues up 3 percent to 10 percent.

At Gorman Publishing, "We're on a roll," says president/CEO William Gorman. Pages for the five food titles "are equal to or above last year and the net per page is better than expected. Revenues will be up 5 percent to 10 percent for the first half of the year. We've been through a tough two years and things are looking better."

Why the increases? "Operating improvements," he says, "rather than

market share."

Others who report a good year include Miller-Freeman, Times Mirror and Vance Publishing.

Novoselski admits he is doing much better than most publishers he knows. As president of the 200-member Western Publishers As-

sociation, he notes that "most of the WPA members are flat in pages or have very minor increases."

In summing it up, "I get mixed reviews," says Ivan Innerfeld, an accountant with a good many magazine clients. "Everyone's being very careful about making estimates."—B.L.

Ad spending concentrated among few

Some advertisers report substantial shifts in magazine spending

Just 100 advertisers contributed more than half of the \$5.4 billion in ad revenue carried last year by the 147 magazine members of the Publishers Information Bureau (PIB). These top advertisers invested \$2.79 billion in consumer magazines, according to the "Magazine Almanac," a special issue of Magazine Publishers of America's (MPA) "Newsletter of Research."

What's more, 180 new consumer launches last year began chasing those ad dollars, MPA reports. The largest category, city and regional titles, accounted for 20 start-ups; business/financial followed with 16; travel with 14; sports with 12; and health with 11 1987 launches.

Overall, the number of magazine titles—business and consumer—grew to

11,593 last year, up 8.5 percent from 1982. About 1,880 consumer and farm magazines were listed with Standard Rate & Data Service.

As a whole, consumer magazines relied largely on a relatively small number of advertisers for support. More than half of the ad dollars spent in PIB titles came from six categories: automotive, business and consumer services, toiletries and cosmetics, mail order, food and tobacco.

The biggest spender was cigarette manufacturer Philip Morris Companies, which poured \$243 million into magazines last year. Rival RJR Nabisco, ranked fourth among magazine advertisers, spent \$106 million. The big three automakers, General Motors, Ford Motor Company and Chrysler Corporation, ranked second, third and fifth, spending a combined total of \$380 million on magazines.

Ten companies accounted for nearly 40 percent of the \$407 million spent by the top 50 mail-order advertisers. About one in three was a publisher. Similarly, 10 companies supplied 30 percent of the \$360 million spent by the top 50 corporate advertisers.

A number of advertisers made major shifts toward magazines last year. Honda, DuPont and Johnson & Johnson led a list of 50 major advertisers that increased magazine advertising by at least 30 percent during 1987. This amounted to an additional \$239 million for magazines—a 62 percent increase over 1986 spending for those 50 combined. MPA did not report on advertisers cutting back on magazines.

On the negative side, only 21 of the 87 advertising agencies tracked by MPA spent a quarter or more of their billings in magazines. Just a handful, furthermore, billed more than 40 percent to magazines. Among the latter were Warwick Advertising (67 percent), Hesselbart & Mitten Cos. (43 percent) and AC&R Advertising (41 percent). □

Top magazine advertisers, 1987

Company	Ad dollars in magazines
Philip Morris Cos.	\$243,330,766
General Motors Corp.	153,984,008
Ford Motor Co.	125,491,158
RJR Nabisco, Inc.	105,965,696
Chrysler Corp.	100,446,621
Procter & Gamble Co.	79,589,956
AT&T	76,269,702
Unilever NV	58,258,868
Time Inc.	51,403,120
Grand Metropolitan	50,661,577

Source: Magazine Publishers of America

A handful of top magazine advertisers outspent the vast majority of advertisers by a wide margin, as seen in the spending differences among the top 10.

UPDATE

on topics ranging from automobiles to food engineering. The April program gave the company's 120 editors a chance to hone their skills at a daylong series of workshops.

Chilton's editorial board—composed of the top editors of each magazine—conceived the idea after numerous unsuccessful attempts to set up in-house training seminars for small groups of editors.

Editors' travel commitments inevitably conflicted with the training sessions, says board chairman Jerry Standley, editor in chief of *Commercial Carrier Journal*. "Historically, you couldn't count on attendance."

For that reason, board members decided to restructure the sessions into a single, one-day event for all editors. They hired top journalists and editors from outside the company to conduct nine workshops on topics requested by Chilton editors. Hotel space was rented to house the workshops, and the company's annual editorial awards banquet completed the program. The board requested that each magazine commit its editors to attending the event.

Getting 'the big story'

Workshop topics focused on interviewing, layout and design, electronic and video publishing, new product evaluation, and getting "the big story." Speakers included Pulitzer Prize-winning journalists from the Philadelphia *Inquirer*, the editorial director of *Consumer Reports*, and national magazine consultants and designers.

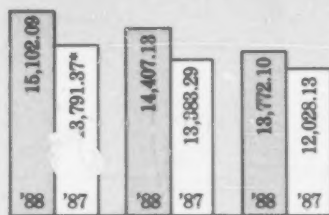
The awards banquet, a yearly Chilton event, gave honors and cash prizes to company editors who competed in 10 categories.

Total costs for the day ran well into five figures, says Standley. The company's top editors, moreover, volunteered time and effort to coordinate the project. Yet, even before the first Editorial Day was over, the board agreed to make it an annual event.

"The only way to get training done, and to get recognition for people, is to do something like this," Standley says. "It's not that you have to spend money, but you have to make the effort. We happen to have a president and management that says we do value editorial excellence and we're going to do something about it. The proof is in the pudding." □

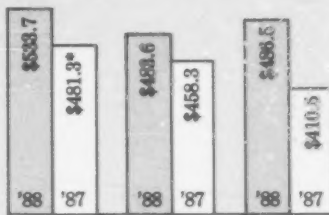
PIB revenues, pages continue climb

Advertising pages



*146 magazines measured

Advertising revenues (in millions)



Source: Publishers Information Bureau

Ad revenue for the first four months totaled \$1.8 billion for the 155 magazines measured by the Publishers Information Bureau—an 11.2 percent increase over last year. The year to date page total came to 53,223.50, up 5.5 percent.

Watch out Adweek—Spy has hit town

When it comes to New York City's social set, the satirical *Spy* is perhaps nobody's darling. After all, this magazine doesn't miss a chance to shoot yet another barb at Pat Buckley, Donald Trump or any other Manhattan heavyweight.

But the magazine is, oddly enough, becoming the new darling of many media advertisers. Its March 1988 issue added several magazine accounts—including *Time*, *People*, *Sports Afield* and *Harper's Bazaar*—totaling 14 pages. Nearly as many pages ran in its May issue.

Why the rush of media ads? Nearly 40 percent of the magazine's readership works in media and communications, says publisher Thomas Phillips Jr. Part of the attraction is that *Spy* likes to jab the media: Regular columns poke fun at *The New York Times* and at movie and media critics for *The New*

Yorker, *Gentlemen's Quarterly*, *The Daily News* and *The Village Voice*, among others.

Rolling Stone was first to buy space last year, followed by *Cosmopolitan*. But the real thrust for media ads began at the end of 1987, when Ellen Falb came on board as *Spy*'s advertising director. Falb had handled New York's media and corporate advertising accounts, and quickly beefed up *Spy*'s client roster.

There is some hint, though, that the *Spy* buy may be something of a passing novelty. *Cosmopolitan* publisher Seth Hoyt has stopped advertising in *Spy* because too many others have jumped on the bandwagon.

"The buy isn't quite as exciting," he says, adding that he may be persuaded to go back if the magazine can find a way for *Cosmopolitan* to stand out from the crowd. □



Spy might be the brat of the New York press, but it does point media buyers to a good number of print opportunities.

Business Research Group, formed this spring, will provide attitude information on the users and buyers of certain technologies, says William Ford, vice president and general manager.

Initial research will focus on buyers of information technology, including computer hardware, software and peripherals. Eventually, the division will research the attitudes of those who buy construction equipment and other business products. The division will survey not only the decision makers in a company, but all personnel involved in buying equipment and systems.

Focusing on buyers' attitudes may be foreign to many technical manufacturers, but is common in the consumer field, Ford says. "Procter & Gamble spends a lot of money understanding its clients," he notes. "It wants to know when you wash your dishes." Technical fields, now maturing, need to concentrate on their customers in the same way, he adds.

Ford would not disclose Cahner's start-up costs for the new research group, nor its revenue projections for 1988.

Cahners is a division of Reed International, a communications company based in the United Kingdom. □

Architects take on New York newsstands

Next target of New York City gentrification: the sidewalk news shack, hung with its laundry line of magazines.

The current level of newsstand design is "minimal," asserts Bartholomew Voorsanger, a vice president of the New York City chapter of the American Institute of Architects (AIA). For that reason, the New York City chapters of the AIA and the Industrial Designers Society of America (IDSA) have set up a joint contest, NEWSSTAND88, to improve the design.

Winning designs will "respond to the functional and human needs in the city and fulfill the potential of newsstands to visually enhance the local urban environment," according to the AIA. Or, as Voorsanger puts it, "beautiful, but affordable and practical."

Entering teams must consist of at least one designer and one architect. The City of New York has agreed to



MICHAEL GARRY

Headed for extinction? New York architects hope so, as they actively pursue a more aesthetic newsstand design.

build a prototype of the winning design to be used on the streets. In addition, entries will be exhibited at a New York City gallery; a catalog of entries may also be produced.

Ten finalists, including the winning design, will be chosen by a panel of three industrial designers, three architects, three city officials and one representative of the newsstand industry. The winner will be announced in August.

Currently, newsstand operators design and build the newsstands they use, subject to the City's approval. Each costs between \$9,000 and \$14,000, and some 300 occupy the streets of New York. Voorsanger hopes a variety of usable designs will emerge from the contest. □

No improvement in delivery of monthlies

About 72 percent of monthly publications were delivered late during first quarter 1988, a score that echoed the poor results of last quarter 1987. New Orleans scored worst, with 30 percent of monthlies delivered at least one week late. Second worst was Buffalo, delivering 25 percent at least one week late. San Francisco had the best score, with 68 percent of monthlies on time or better. Phoenix, which had been number one, still boasts a 67 percent on-time or better score. The scores reflect delivery time from each city to Postal Zones 1 and 2.

Delivery box score: Monthly publications, January 1-March 31, 1988

City/Zip Code	Better than USPS standard	Service standard	1-6 days late	Later
Composite average*	11%	17%	64%	8%
Boston (021)	14	13	69	4
New York (100)	4	28	64	4
Buffalo (142)	0	12	63	25
Pittsburgh (152)	6	20	72	2
Philadelphia (191)	8	11	61	20
Washington, D.C. (200)	0	3	80	17
Atlanta (303)	4	29	60	7
Miami (331)	21	29	43	7
Memphis (381)	10	4	65	21
Cincinnati (452)	5	24	65	6
Detroit (482)	5	9	86	0
Milwaukee (532)	0	7	89	4
Minneapolis (554)	13	32	55	0
Chicago (606)	15	14	69	2
New Orleans (701)	0	0	70	30
Dallas (752)	4	31	62	3
Houston (770)	12	13	70	5
Denver (802)	23	20	57	0
Phoenix (850)	34	33	33	0
Los Angeles (900)	2	4	75	19
San Francisco (941)	20	48	28	4
Seattle (981)	30	20	30	20

*Includes other U.S. cities and SCFs not listed
Source: Red Tag News Publications Association, Inc.

Late delivery of weeklies climbs to 59%

Late delivery of weeklies increased from 52 percent in last quarter 1987 to 59 percent in first quarter 1988. San Francisco is still in first place, with a 65 percent on-time score. Minneapolis is a close runner-up, delivering 62 percent of weeklies on time. New Orleans continues to have the worst record, delivering 64 percent of weeklies more than one day late. Memphis, delivering 38 percent at least one day late, is second worst. The scores reflect delivery time from each city to Postal Zones 1 and 2.

Delivery box score:

Weekly publications, January 1-March 31, 1988

City/Zip Code	On time	1 day late	Later
Composite average*	41%	29%	30%
Boston (021)	41	31	28
New York (100)	51	29	20
Buffalo (142)	53	29	18
Pittsburgh (152)	30	35	35
Washington, D.C. (200)	42	28	30
Atlanta (303)	42	29	29
Miami (331)	41	30	29
Memphis (381)	35	27	38
Cincinnati (452)	31	41	28
Detroit (482)	49	31	20
Milwaukee (532)	52	29	19
Minneapolis (554)	62	27	11
Chicago (606)	45	30	25
New Orleans (701)	15	21	64
Dallas (752)	38	35	27
Houston (770)	37	35	28
Denver (802)	33	32	35
Phoenix (850)	36	32	32
Los Angeles (900)	53	24	23
San Francisco (941)	65	19	16
Seattle (981)	55	22	23

*Includes other U.S. cities and SCFs not listed
Source: Red Tag News Publications Association, Inc.

sketch original illustrations by dragging the mouse. Other features include the ability to scale, rotate, reflect and skew both graphics and text. Users can also incorporate multiple typefaces, sizes and colors in a single text block and string text along paths such as wavy lines or curves. Aldus FreeHand also allows users to apply spot colors, tints or process colors (CMYK) to any drawing, and produce color separations with printers or imagesetters that use PostScript. Price: \$495. Write: Aldus Corporation, 411 First Ave. South, Suite 200, Seattle, Wash. 98104. Telephone: 206-628-2352.

XYquest, Inc., is distributing file conversion software for XyWrite III Plus that allows XyWrite documents to be converted to and from DCA (Document Content Architecture) Revisable Form Text (DCA.RFT). The new programs provide greater flexibility for XyWrite users to interface with users of other word processing packages. Registered XyWrite III Plus owners can receive the programs at no charge. Write: XYquest, Inc., 44 Manning Rd., Billerica, Mass. 01821. Telephone: 617-671-0888.

Compugraphic Corporation is offering Release 2.0 for its Compugraphic Automated Publishing System (CAPS), now running on the latest high-speed Sun-3 workstation. The new CAPS systems are priced 15 percent to 30 percent below previous systems and deliver twice the effective speed of the systems they replace. In addition, the new systems feature improved networking capability and enhanced applications. Write: Compugraphic Corporation, 200 Ballardvale St., Wilmington, Mass. 01887. Telephone: 617-658-5600.

Computer Briefs

Letraset is offering ImageStudio image processing software for Macintosh users. Desktop publishers can paint, draw, edit and manipulate images digitized by high-resolution scanners. They can remove unwanted objects from a photo, soften or sharpen edges, alter brightness and contrast and move picture elements. Modified images can then be imported into page layout applications, such as Ready,Set,Go! 4.0. With 64 shades of gray available, users can produce camera-ready halftones and take advantage of the full capabilities of sophisticated gray-level scanners and high-resolution output devices. Price: \$495. Write: Letraset USA, 40

Eisenhower Dr., Paramus, N.J. 07653. Telephone: 201-845-6100.

Apple Computer has introduced two new desktop laser printers utilizing Adobe's PostScript page description language. Price: \$4,599, LaserWriter IINT; \$6,599, LaserWriter IINTX. Write: Apple Computer, Inc., Ronni Sarmanian, M/S 361, 20330 Stevens Creek Blvd., Cupertino, Calif. 95014. Telephone: 408-973-5139.

Aldus FreeHand, a PostScript-language drawing program for the Apple Macintosh, is now available. Basic drawing tools and templates are included, and the freehand tool enables users to trace existing artwork or

Marketing Briefs

Trendsetting Spy magazine celebrated its long-standing affinity with Absolut vodka by sponsoring an "Absolut Participation" contest for readers. The contest invites readers to design their own Absolut ad on a blank inserted in the March issue. Six watercolors are print-



Special report: Magazine cover paper

As new advertising and circulation cover opportunities arise, the choices of cover stocks, configurations and finishes are changing

BY NORMAN WIENER

Many magazine publishers still regard the magazine cover simply as an editorial and graphic place to present—either literally or conceptually—the current month's editorial features. However, as a result of changes in binding capabilities and postal regulations, a growing number of publishers are discovering that the magazine cover is fertile new ground for editorial and advertising development.

In cooperation with FOLIO: magazine, Walker Wiener Associates (WWA), a Briarcliff Manor, New York-based market research firm specializing in paper, printing and print media, undertook a detailed investigation of the changing role of magazine covers. WWA's research in this area was based on three distinct efforts:

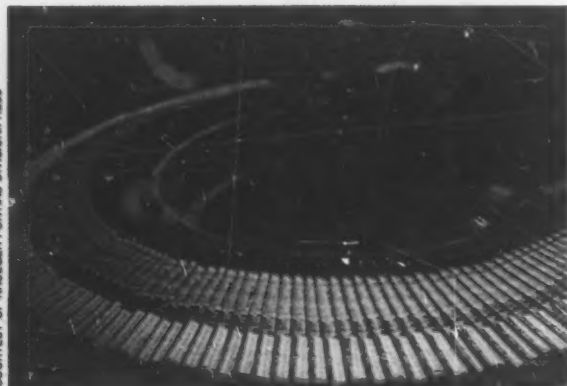
- A mail survey that was conducted among a sample of major consumer and business magazine publishers. (For an explanation of the characteristics of the sample, see sidebar.)
- Additional interviews with a handful of magazine publishers.
- A review of several thousand magazine covers at the Eastern Newsstand in New York's Pan Am Building.

1. Trends to watch

Our investigation revealed that, without question, magazine covers and cover wraps are clearly increasing in importance. Some of the trends to monitor in this regard include the following:

1. *Magazine cover pop-ups:* These are likely to become a focus of selected issues. The current success of magazine inserts with this capability is likely to spread over to the cover.
2. *Three-dimensional covers:* With the upcoming promotion of 3-D television spectaculars, some publishers are likely to chance one issue as a tie-in.
3. *Magazine coverserts:* You've heard of magazine inserts and outserts, now get ready for coverserts. These are inserts that might be press-pasted to a cover. *Catalog Age* (FOLIO's sister publication, edited for the catalog market), recently ran an eight-page foldout that was press-pasted to the inner back cover. For a cover to carry an outsert, it must be heavy—approaching 100 pounds or higher in basis weight.
4. *Greater use of bagging and wrapping materials:* With the change in postal regulations, many publications are start-

Norman Wiener is vice president of Walker Wiener Associates, an international-based marketing research company specializing in paper, printing and print media. Wiener has been involved in the paper industry for almost 20 years.



COURTESY OF WRUEGER PONTIAC DIVISION/PPSS

ing to think again about their use of piggybacking, while they are awaiting the new United States Postal Service guidelines. Polybagging has been the thrust of most initial efforts, since it works well on the bindery lines of many magazine printers. However, paper-based envelopes are likely to be used too, particularly by those magazines desiring to impart the feeling of higher value in their wrapping materials.

5. Greater protection of covers and magazines: An increasing number of magazines are now being shrink wrapped. This trend appears to be most prevalent among higher priced publications (in excess of \$5 for a single copy.)

6. Increased use of eight-page covers: Cover pages have always been the best noted section of a magazine, and have usually deserved a premium. Many publishers appear to be ready to expand their standard covers into cover sections—with upgraded paper and printing in the first four and last four pages. Some advertisers have effectively used multiple page layouts for getting dramatic impact for their print ads.

7. Greater use of overcoatings: This can mean either varnish or UV coatings. With the introduction of more higher value and higher image magazines, the need for a "table-top" look in covers will increase. So many magazines are now moving to overcoating, it appears to be becoming status quo—at least for newsstand issues.

8. Expanded role for ink-jet imaging: Already a factor in the catalog market, ink-jet imaging will be used to tell subscribers about special editorial or advertising sections, based on the publisher's growing knowledge of the magazine's subscriber base. This could lead to distinctively different designs or layouts for subscription covers versus those oriented for the newsstands. A recent promotion for *U.S. News & World Report* used a personalized cover wrap message to entice prospective buyers with a trial subscription.

9. Increased use of cover feature display tabs on covers for single-copy sales: There are now three ways to display a magazine on the newsstand: full exposure, top horizontal front or top vertical left side. In the future, to gain maximum exposure advantage for their magazines, publishers are expected to expand the options to their distributors, based on the merchandising techniques used by local retailers.

10. Increased use of covers on many self-cover publications: In order to dress up many lower end consumer and business tabloid publications, as well as to develop new advertising streams and provide a unique area for advertising, many self-cover publications are beginning to make use of printed covers. This trend seems to be developing even



if a magazine doesn't have newsstand sales. One major business magazine publisher says it gets such a premium for its covers, versus run of press (ROP), that it's worth the extra effort when they get the advertiser support.

Cover upgrading continues

If you have not reviewed your competition recently, you might start by checking their covers. Close to 20 percent of the magazine publishers interviewed for this article noted that they had upgraded their magazine covers within the past 12 months. An additional 10 percent were planning upgrades during the next 12 months, particularly consumer magazines.

The interest in upgrading magazine covers stems from several different directions.

- Among business magazines, the most important forces include the rising cost of magazine subscriptions and the need to impart higher

quality; the increasing development of reference based issues; higher circulation per copy trends (which result in more abuse to covers); and the need to protect magazines from wear and tear during postal distribution.

- Among consumer magazines, upgraded covers have been fostered by desire to stand out on the newsstands; ability to impart a sense of higher quality (vis-a-vis higher subscription and single-copy prices); the positioning of high image (i.e., table-top magazines); and the development of special issues (which are more likely to be saved).

2. Production aspects

Summaries of the findings about the graphic and production characteristics of magazine covers are provided here.

- **Grade of paper:** Close to 90 percent of all respondents use the same grade of paper for covers for both single copies and subscriptions. Publishers of business magazines tended to make slightly greater use of different grades of paper for the two types of circulation. Given the intense competition for single-copy sales, however, it would appear logical for more consumer magazines to use this tactic.

- **Role of permanence in magazine covers:** Close to 45 percent of all respondents noted long term permanence as a key issue in the design of their magazines covers. Three-fourths of all consumer magazine covers are designed to last for one year or longer. Less than 10 percent of consumer magazines appear to be oriented for shelf lives of one month. Clearly, magazines are no longer considered disposable. Many special issues are collectibles. A better cover clearly provides a better presence over the long term.

- **Printing process of cover:** Sheetfed offset printing was utilized for printing close to 40 percent of the magazine

covers, versus 60 percent for heatset web-offset printing. For the printing of body stocks, heatset web printing use was noted for close to 80 percent of the magazines. Although most consumer magazine respondents noted very limited use of sheetfed printing for their body stock (15 percent sheet versus 85 percent web), slightly more than one-third still noted use of sheetfed printed covers. Sheetfed printing still appears to be the best direction for heavier covers. Web presses, according to several publishers, just can't provide the same capabilities when it comes to highest quality reproduction.

• **Basis weight of cover:** Eighty-pound basis weight cover stocks (on a 25 x 38/500 basis) were used by close to 46 percent of all magazine respondents. This use of the primary basis weight was slightly higher among business magazines, versus consumer magazines. On average, cover basis weights tended to be 20 to 30 pounds higher than text or body basis weights. This difference is also widening.

Basis weight mix of magazine cover stocks

Basis weight*	% of magazines using		
	Total	Business	Consumer
40 pounds	4%	4%	3%
60 pounds	17	18	17
70 pounds	19	14	23
80 pounds	46	50	43
100 pounds	14	14	14

*25 x 38/500 basis

Source: Walker Wiener Associates

• **Paper grade:** Coated paper grades predominated for the production of covers. From a grade standpoint, coated grades, defined as being either coated #2 or #3, were most often used—accounting for 60 percent of magazine covers. Consumer magazines tended to make significant use of coated #4 grades (close to 28 percent of all consumer magazines). From a volume standpoint, coated #4 grades are probably more important, since they are used by many of the larger consumer magazines. This latter grade category includes a range of brightness and basis weight levels, and has been one of the most active areas for paper industry growth over the past two years.

Paper grade mix of magazine covers

Grade designation	% of magazines noting		
	Total	Business	Consumer
Coated #1	8%	4%	10%
Coated #2/3	60	66	57
Coated #4	22	11	28
Coated #5	6	10	5
Coated 1-side	4	9	2

Source: Walker Wiener Associates

• **Ink coverage:** Close to two-thirds of all respondents noted that 100 percent of their magazine cover space was covered with ink. Full ink coverage was slightly higher among consumer magazines. With so many magazines noting full bleeds, effective use of white space could make some magazine covers stand out on the newsstand.

Average ink coverage on magazine covers

% of ink coverage	% of magazines noting
100 %	64%
90-99	17
80-89	8
70-79	5
Less than 70	7

Source: Walker Wiener Associates

• **Level of color printing:** Four-color process printing predominates in the production of magazine covers. Close to 80 percent of all respondents noted use of four-color process. Less than 4 percent of all magazines noted the use of one-color covers.

• **Use of special coatings:** Overall, 45 percent of the magazines use some type of special coatings on their covers. Varnish was noted by close to two-thirds of the companies, UV coatings by almost one-quarter. Use of coatings is expected to rise as competitive forces make varnish and other overcoatings a standard. In almost every case, advertiser and agency reaction to overcoating has been quite positive.

• **Use of die-cuts:** Less than 3 percent of all respondents noted the use of die-cut covers. This is a very expensive option, and one that must tie in to an inside picture or graphic. Die-cuts could be used effectively with some self-cover magazines, whereby a special feature (on the self cover) could be highlighted each month. Because of the longer lead times required with covers, certain news-based magazines could take standardized die-cut covers and effectively highlight a late-breaking feature on the ROP section of the magazine.

• **Typical cover configuration:** The cover configuration of most magazines is the standard four-page cover. Over 95 percent of the respondents noted this format as their standard. Single gatefolds (opening in the front) were noted by about 3 percent, and double four-page covers by less than 2 percent.

• **Other cover configurations used:** Many magazine publishers noted that, on occasion, they do vary their cover formats. Close to half noted the use of single gatefold (front opening) followed by double four-page covers. This is clearly one area where major change may occur over the near term. Many publishers are now exploring new options for covers that have not been examined before.

Nontypical magazine cover configurations used

Configuration	% of magazines noting use
Standard 4-page cover	6%
Single gatefold (front)	49
Single gatefold (back)	14
Double gatefold	9
Two standard 4-page covers	22

Source: Walker Wiener Associates

• **Use of UPC code:** Close to 45 percent of the magazines responding now have a Universal Product Code (UPC) on their covers. This was far more predominant among con-

sumer magazines (67 percent) than business magazines (13 percent). The U.S. scanner population in retail stores is exploding, and UPC codes are likely to be standard within a few years.

- **Imprinting of mailing address on cover:** Cheshire label use still dominates in the addressing of magazines. Close to three-fourths of all respondents used Cheshire labels. About 20 percent noted use of pressure-sensitive labels. Ink-jet addressing of subscription magazines accounted for less than 2 percent of the magazines surveyed. Ink jet's share is expected to skyrocket as publishers start taking advantage of demographic advertising options.

- **Use of personalized covers:** Personalized covers (i.e., ink-jet addressing or messaging) were being planned by 15 percent of the respondents. This was significantly higher among business magazines, compared to consumer magazines.

- **Use of cover wraps:** Almost 60 percent of the respondents now employ some type of cover wrap to protect their mailed subscription issues. Business magazines (75 percent using cover wraps) used cover wraps more extensively than consumer magazines (49 percent).

However, cover wraps are not used all year round. About one-third of the magazines using cover wraps use them on every single issue. The remaining using cover wraps varied in their frequency of use: Twice per year was noted by about a quarter of all magazines, and quarterly and semi-annual use by 30 percent.

Reply card stock was the dominant paper grade used for outerwraps, accounting for half of the identified material. The remaining 50 percent was divided between white wove (envelope stock) and plastic. Close to 30 percent of the materials used by consumer magazines was noted as plastic.

Close to 95 percent of the magazines expected to continue their use of cover wraps.

The primary reasons noted for using cover wraps varied. But renewal-related factors were clearly most important.

Primary purpose of magazine cover wraps

Primary purpose	Total	Business	Consumer
Renewal	44%	53%	33%
Protection	24	25	22
Highlight special feature	11	6	17
Hold other loose materials	7	10	6
Decorative	6	6	6
Obtain gift subs	6		11
Security	2		3
No specific reason	1		2

Source: Walker Wiener Associates

Only one of 10 magazines noted efforts to secure external advertisers for their cover wraps.

Among those magazines not using cover wraps, close to 30 percent planned to use them in the future. Business magazines, by a wide margin, planned greater use in this regard than consumer magazine publishers.

3. Specification and brand preferences

A further perspective on the changing role of magazine

covers was revealed by a series of questions relating to the area of paper/printing specifications and brand preferences.

- **Identified brand use:** Close to 88 percent of the publishers were able to name the specific brand of paper used for their magazine cover. As shown on the accompanying chart, S. D. Warren, followed by Westvaco, received the most number of mentions for their specific brands. By a wide margin, Warren's Warrenflo and Westvaco's Sterling were the dominant brands noted for magazines covers.

- **Use of same brand for both cover and body stock:** Slightly less than 20 percent of all respondents noted the use of the same brand supplier for cover and body stock paper. Consumer magazines noted a slightly higher use of

"Publishers who maintain this status quo are likely to lose some critical benefits, including greater prestige, increased revenues, and a more powerful competitive product for attracting new subscribers."

the same supplier for both.

- **Importance that brand of cover and body be the same:** In this regard, less than 10 percent of respondents replied that the brands of cover paper and body paper had to be the same. Business magazines showed virtually no desire to maintain the link between the two.

- **Importance that supplier (either mill or merchant) be the same:** Here again, less than 10 percent indicated that the two suppliers had to be the same source. Similar to the previous findings, consumer magazines noted a slightly higher preference in this regard.

- **Purchasing of cover paper:** Close to 25 percent of the respondents noted that they (i.e., the magazine's publisher) purchased the paper used for their covers. Close to 40 percent of the business publishers noted this direction, versus less than 15 percent of the consumer magazines.

- **Where publisher purchased paper:** When the paper was purchased by a publisher, close to 80 percent of the purchases were made through a paper merchant. Only 20 percent of the purchases were made directly from a mill.

- **Printer sourcing of magazine cover papers:** When the printer purchased the magazine cover paper, close to 40 percent of the respondents noted that the paper was taken from the printer's house stock. Close to half noted that their printers order the paper from a mill. The use of merchants fell considerably when the printer handled the purchasing, as only 11 percent of the respondents noted the use of merchants in this regard.

- **Brand specification of cover stocks:** When cover paper is purchased (whether it be through the printer or direct by the publisher), close to 43 percent of the publishers either specify a specific brand or just note the specific grades. The remaining 14 percent either note basis weight, price per pound or best available buy.

- **Printing of magazine covers:** More than 98 percent of the respondents note that their magazine printer also

prints their magazine cover.

• **Department/function most influential in decisions regarding the cover:** Overall, production/manufacturing department personnel were noted as being slightly more important in decisions pertaining to the cover than the publisher—36 percent to 33 percent. Editorial and creative groups each drew about 12 percent of the total mentions in this regard.

Department/function most influential in decisions regarding magazine cover

Department/ function	% of magazines noting		
	Total	Business	Consumer
Production/ manufacturing	36%	50%	29%
Publisher	33	19	39
Design/art/ creative	12	8	14
Editorial	10	15	8
Operations	3	4	2
Sales	3	3	2
Circulation	3		4
Finance	1		1

Source: Walker Wiener Associates

Implications of cover trends

It should come as no surprise that something as powerful as a cover—both as an editorial and an advertising medium—can be improved with a little extra effort. Publishers who maintain a status quo attitude in this regard

are likely to lose some very critical benefits, including greater prestige (among readers, advertisers and agencies), increased revenues, and a more powerful competitive product for attracting new subscribers. As with houses, which must be repainted every few years, magazine covers must continually be revitalized to provide your audiences with a sense of direction, pride and growth.

The sample

Many of the observations and comments in this article are based on data from over 100 mail questionnaires that were received by WWA during the months of November and December 1987, and January 1988. Some of the characteristics of the sample included—

- 100 magazine publishers. Slightly more than half were business magazine publishers.

- Most magazines (94 percent) were of standard size.

- The average circulation of the business magazines was 51,000, compared to 208,000 for the consumer magazines.

- Most magazines were saddle stitched (55 percent) versus perfect bound (45 percent). Business magazines made greater use of perfect (53 percent), while consumer magazines were 60 percent saddle.

- Most magazines were monthly (72 percent); 10 percent published more frequently than monthly; 18 percent published less frequently than monthly.

Identified brand preferences for magazine cover stocks

Mill/brands	% of total responses* for business and consumer magazines
S. D. Warren	36%
Warrenflo	
Webflo	
Lustro	
Flokote	
Patina Matte	
Westvaco	34
Sterling	
Velvo	
Marva	
James River	8
Sonoma	
Crown Cover II	
Capistrano	
Champion	5
Javelin	
Panaprint	
Kromekote	

Mill/brands	% of total responses* for business and consumer magazines
Mead	5%
Escanaba	
Mead	
Northcote	
Midtec	3
Shorewood	
International Paper	2
Hudson	
Northwest	2
Vintage	
Boise Cascade	2
Kymenne	2
KymexCote	
Zanders	2
Ikonolux	

* Does not add to 100% because of rounding
Source: Walker Wiener Associates

Nonprofit mailing rates: Unfair

For the first time since the dawn of the Republic, the future of nonprofit rates is being called into serious question

BY KARLENE LUKOVITZ

“Why does National Geographic Traveler reap all the benefits of nonprofit status while the new Conde Nast Traveler must pay full freight on all its postage and then pay taxes on its earnings, thereby contributing to the nation's economic well being? Why should Harper's suddenly be granted nonprofit status and—with it—a whopping economic advantage over The New Yorker?”

Denison Hatch
Publisher
“Who's Mailing What”
October 1987

“[Nonprofit status] is not simply a matter of avoiding taxes and getting (for a while longer, at least) a preferential postage rate. The point is that nonprofit publications agree to operate without a profit, which is, after all, what allows profit-making magazines to continue publishing.

“Harper's Magazine has renounced profit. If The New Yorker is willing to do the same, then by all means give them nonprofit tax and postal status, too. I suspect Conde Nast would feel that the drawbacks of nonprofit publishing far outweigh its benefits . . .”

John R. MacArthur
Publisher
Harper's Magazine
Excerpt from November 11, 1987,
response to Hatch opinion column

When it comes to postal rates, just about everyone has some ax to grind. Preferred mailing rates, more commonly termed “nonprofit rates,” have often been the cause of controversy among mailers and politicians. But at no time have these rates—which, unlike regular rates, are subsidized by the Treasury—been under more scrutiny than in recent years.

Preferred rates originated in the earliest days of the Republic, when newspapers and other periodicals were given lower postal rates as a means of encouraging the widest possible dissemination of information to the pub-

lic. It's a safe bet that such rate breaks came in for some fire even back in the days of Ben Franklin.

But the ongoing debate over the merits of preferred rates and over how these lower rates should be supported, if at all, has heated up considerably in the eighties, as opponents of these special rates have pressed their cases in the context of Congress' struggle to cut costs to reduce the budget deficit.

The total subsidy for preferred rates, called the “revenue forgone” subsidy, is \$517 million for fiscal year (FY) 1988—not much in comparison with the billions in Government subsidies spent in other areas. However, the intense pressure to find large and small ways to cut Government spending, concern in Congress over abuses of preferred mailing rate status, and op-

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advantage?

position from for-profit businesses and the Reagan Administration have put revenue forgone subsidies and preferred rate eligibility guidelines into serious question for the first time in their history.

Charges of unfair competitive advantages and commercial uses of nonprofit mailing permits are the main objections to preferred rates and their subsidies. Second and third class nonprofit mail—the two categories of vital concern to magazines published by nonprofit organizations—are also the categories most subject to criticism. For-profit mailers have long contended that many users of second and third class preferred mailing permits are unfairly paying lower rates while engaging in business activities that are really no different from, and are often directly competitive with, those of for-profit, tax paying businesses.

Third class bulk nonprofit mail, which consists of fund-raising and other promotions sent out by nonprofit organizations, is the focus of most attention, with good reason: It is by far the largest-volume preferred category (11.72 billion pieces projected for FY '88), accounting for over 75 percent of the total revenue forgone subsidy. Furthermore, insofar as it is used in ways that compete with for-profit businesses that pay regular third class rates, it has the greatest potential of any preferred rate category to ruffle the feathers of everyone from banks to catalogs to travel agents—although, according to Postal Rate Commission (PRC) mail studies, only 28 percent of nonprofit third class bulk mail contains any advertising.

An oft-cited example of abuse of third class preferred mailing rates is that of universities, colleges and other fund-raising organizations that use their permits to promote trips, packaged by for-profit travel businesses, to

their alumni or members. The nonprofits get some portion of the sales as donations to their organizations (and may also be reimbursed for their mailing costs); the travel business gets the rest. Nonprofit permits have also been used to market insurance, credit cards and other goods and services.

In large part because of concern about such promotions, Congress asked the PRC in 1986 to conduct an extensive study of preferred rates. One of the PRC's major mandates in conducting the study was to recommend changes in eligibility requirements for nonprofit mail that advertises goods and services.

Second class special (outside county) nonprofit rates, which apply to magazines and other publications published by nonprofit organizations, account for only about 7 percent of the total subsidy. However, they too have come in for considerable criticism, mainly from for-profit specialized business publishers who raise the unfair competition issue.

The other types of preferred rates—second class in-county, second class classroom, science of agriculture, free for the blind, and fourth class library—are generally less controversial. Nevertheless, there are those who would like to further restrict, or even abolish, nearly all types of preferred mail. (In-county rates, meant to help rural newspapers, are less of an issue since regulations were changed in 1986 to bar large-circulation, national publications from getting these rate breaks.)

Opposition from the business press

The Association of Business Publications (ABP) has been one of the most vocal groups in favor of eliminat-

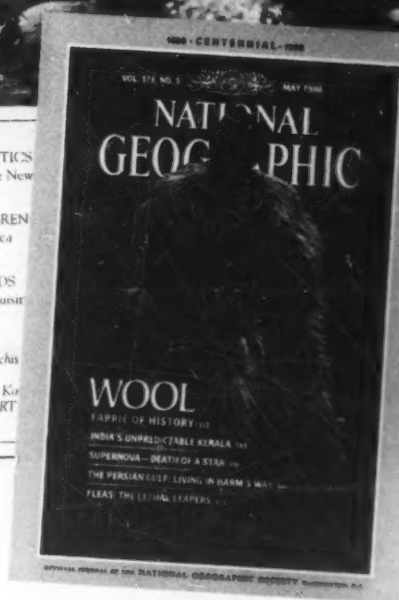
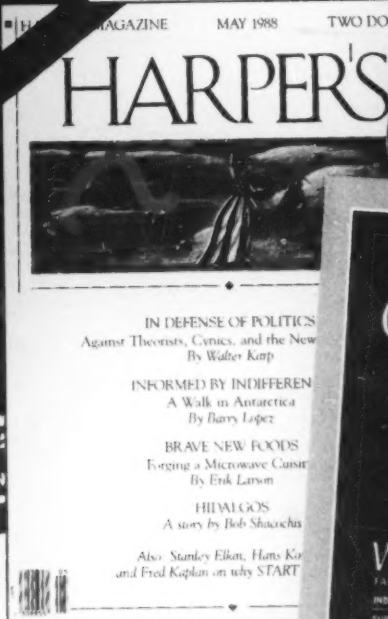
**Bulk Rate
Non-profit Org.
U.S. Postage
PAID
Permit No. 000
Anytown, USA**

ing all subsidies for preferred mail categories, with the exception of those for the blind and physically handicapped. ABP contends that the subsidies should be eliminated as a matter of fiscal policy, particularly since nonprofit organizations are already given tax subsidies.

Essentially, ABP opposes preferred subsidies and preferred rates because its member publications, which serve special interest groups such as doctors, chemists and engineers, have to compete for advertisers and readers with preferred-rate publications produced by nonprofit associations that also serve these groups.

Lower operating costs made possible by lower postal rates could allow association publications to charge lower advertising rates than for-profit publications serving the same readers, says Richard Moeller, chairman of the ABP Legal Committee and president of Edgell Communications.

"Nonprofit publishers target professional, trade and other specialized journals with the same audiences as do taxpaying, regular rate publishers," said Moeller, in testimony before the PRC last September. "The medical field is one of many where this unfair subsidized competition exists: Distinguished taxpaying medical journals such as the *American Journal of Medicine*, *Modern Medicine*, *Patient Care*, *RN*, and *Nursing* 88 directly



What consumer magazines benefit?

Modern Maturity is one of a few giants. Last year, the 16.7 million circulation publication brought in \$42 million in ad revenue on 261 ad pages. Smithsonian (circulation 2.2 million) had nearly \$38.9 million in ad revenue on 1,056 pages; National Geographic (circulation 10.5 million) had \$28.7 million on 221 pages. Most nonprofits are hardly in this league, however; Harper's, for example, reported \$1.4 million in revenue on 357 ad pages.

compete against the nonprofit *Journal of the American Medical Association*, *New England Journal of Medicine*, *Annals of Internal Medicine*, and the *American Journal of Nursing*, to name a few.

"Identical advertisements for drugs and medical supplies appear in both types of periodicals. The editorial value to the reader of one publication cannot be said to be any greater or less for a tax paying versus a nontax paying association or professional journal, without getting into content-control . . .

"It is not only professional and business paper publishing where in practically every field there is an association or nonprofit competitor. In consumer magazine publishing there are large nonprofit organization publications as well . . . 27.3 percent of all nonprofit second class volume is produced by only 18 out of 41,147 second class nonprofit periodicals mailed out of county . . . [These] include *American Hunter* (circulation 1.4 million copies per issue) and *American Rifleman* (circulation 1,362,000 copies per issue), both published by the National Rifle Association; *National Geographic* (circulation 10,693,000 copies per issue) and the newly established

National Geographic Traveler (circulation 848,000 copies per issue), both profitably published by the nonprofit National Geographic Society. These

"With IRS tax exempt status, a nonprofit mailing permit is virtually assured."

are not isolated examples . . . "

Those who are not familiar with tax and postal regulations regarding nonprofit organizations might well be puzzled as to how a nonprofit organization can publish profitable magazines or engage in other profitable enterprises.

What does the tax code say?

An organization that has been granted tax exempt status under Section 501(c)(3) of the Internal Revenue Code is not totally excluded from engaging in profit-making activities; however, it is required to pay some tax-

es (not the full amount that would be paid by for-profit businesses) on those parts of its activities that do generate a profit. Determination of actual tax liability for these activities, however, has been subject to considerable litigation.

And, while an organization or association that has obtained tax exempt status from the IRS is not automatically entitled to preferred rate mailing status, which must be granted by the Postal Service, in practice, the link between the two is strong. In its report to Congress, the PRC acknowledged that postal officials have always relied heavily on the IRS's tax exemption determinations in granting preferred mailing permits.

Under the IRS guidelines, any one of a host of activities or purposes may qualify a group for consideration for tax exempt status. These include charitable, religious, school- or college-related, cultural, historical and other educational activities; health services, business and professional organizations, and employee or membership benefit organizations; sports/recreational/athletic/social activities; civil rights, litigation, legal aid, legislative and political, advocacy, conservation

and environmental activities—and even some “cemetery or burial” activities.

There are those who contend that the range of groups currently eligible for tax exempt status under IRS guidelines is too broad and ill defined and is really the crux of the whole nonprofit problem. If getting tax exempt status were tougher, they reason, there would be more organizations paying taxes and fewer getting postal rate breaks—both of which would be good news for the deficit.

However, the PRC, in its report, took the position that changes can and should be made in the Postal Service's own eligibility guidelines, independent of any such action at the IRS. “Some tax scholars believe that nonprofit organizations are not really the beneficiaries of ‘loopholes’ in income tax laws, nor are they specially privileged,” the PRC stated. “Rather, they are truly not the kind of income-producing entity that could be subject to income taxation. Thus, there is no necessary nexus—either in logic or in policy considerations—between exemption from taxation and entitlement to lower operating costs in the form of reduced postal rates.”

The Commission also noted that Congress, in extending eligibility for preferred postal rate status to new categories and groups many times over the years, has rarely bothered to discuss

why it has made some groups eligible and not others.

Questions of individual gain

In addition to questions about the eligibility of various types of groups, notes Tom DeYulia, staff director of the House Post Office and Civil Service Committee, a major dilemma in dealing with preferred rates “is trying to determine when an individual organization is legitimately worthy of

“Congress rarely discusses its reasons for extending preferred status to new groups.”

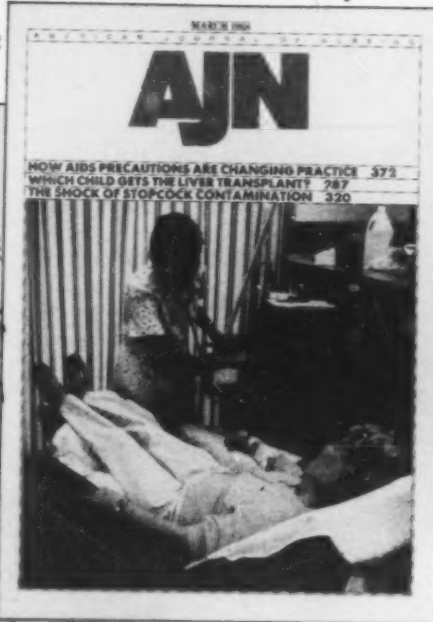
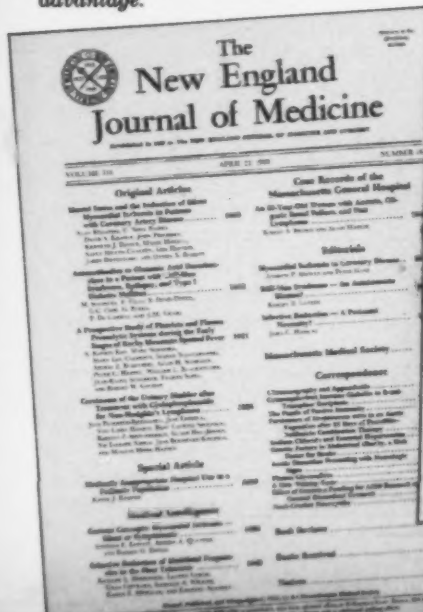
nonprofit status, and when that status is actually being used as a cover for individual gain.”

Forbes, in its November 2, 1987, issue, ran an article about the American Association of Individual Investors (AAII), founded in 1979 by James Cloonan, who is its president. For a \$48 annual fee, members receive the monthly *AAII Journal*, which *Forbes* describes as “an excellently written collection of advice on IRAs, life insurance, mutual funds and stock trading.”

According to the article, the AAII, which is a Federal-tax exempt educational organization, had a \$3.3 million cashflow on revenues of \$8.9 million in 1986, and its balance sheet showed \$5 million in cash against \$21,000 in liabilities. While acknowledging that actual profits are hard to gauge because of deferred subscription income, and that, due to the organization's nonprofit status, Cloonan cannot legally own or sell it, *Forbes* reports that his personal compensation in 1986 was \$588,000, and that the “company car” is a 1984 Jaguar. The AAII receives a \$360,000 taxpayer subsidy in the form of nonprofit mailing rates on third class mailings.

Cloonan says that the *Forbes* article is “basically” accurate, though he contends that a few of the figures, as well as its “attitude,” are “slightly off.” *AAII Journal* and the association's seminars, he asserts, do not give investment advice, but instead, like university MBA programs, train people to make their own investment decisions. As such, he says, AAII qualifies for nonprofit status and mailing rates, at least under the current requirements. As for his salary and the Jaguar, he points out that all nonprofit organizations have positive cashflow, or they would otherwise be out of business. “You could argue the fairness of what people pay us for certain services that we offer, just as you could argue the

Two sides to every story: Few would argue that journals published by medical and scientific associations make valuable contributions to scientific advancement, but for-profit publishers competing for advertising contend that the journals have an unfair economic advantage.



fairness of the tuition charged by a given university," he adds. "But the fact remains that, under current definitions, we qualify as a nonprofit organization."

The tax code provides that "no part of the net earnings" of a nonprofit organization "shall inure" to a private individual, but, as *Forbes* noted, "the IRS rarely has time to engage in debates with charities on where to draw the line." The same could be said of the Postal Service which, according to the *Domestic Mail Manual (DMM)*, is empowered to make an organization eligible for nonprofit rates if it engages in religious, educational, scientific, philanthropic, agricultural, labor, veterans or fraternal work as its primary purpose, if it is not organized for profit, and if "none of its net income inures to the benefit of any private stockholder or individual."

There are unquestionably some cases in which individuals gain as a result of nonprofit enterprises, including publications. Nonprofits, however, argue that there are certainly many nonprofit magazines whose publishers and other staff members are hardly cleaning up, in terms of salaries and benefits—magazines that carry little or no advertising and are struggling just to stay alive, even with tax and postal breaks. Some executives and staff members of nonprofit magazines are certainly making less than they would be if they worked for for-profit magazines; others are doing as well or better than for-profit peers.

How real a threat?

MacArthur also scoffs at the idea that his magazine, or most nonprofit magazines, presents any significant threat to for-profits. "This supposed competitive advantage is absurd," he says. "I have to sell ad space against *Time*. I'm the one who needs a break. We work with a little endowment; they work with the resources of a huge corporation. And we will always have a limited audience and a limited number of advertisers. *Harper's* has been losing money for years. Its former, for-profit owners were about to kill it for that reason. It's never going to be a big money maker. A lot of nonprofits, like *Mother Jones* and *The Progressive*, can barely get any advertising."

What about magazines with which *Harper's* competes more directly? Robin Johnson, publisher of the for-

profit *Atlantic Monthly*, says he doesn't lose any sleep over his competitor's nonprofit postal rates. "If the difference in regular and nonprofit rates were still as large as it was back in 1981, I might be more concerned about it," he says. "What we do agonize over here is the jump in regular second class rates, and those terrible new poly-bagging regulations."

MacArthur asserts that no for-profit publication, business or consumer, has ever been put out of business by a nonprofit competitor. Preferred rate opponents interviewed acknowledge that they cannot cite an example that contradicts this statement.

"It is the business press that is viru-

"Has a for-profit publication ever been driven under by a nonprofit competitor? Opponents of preferred rates acknowledge that they can't cite such an example."

lent in its opposition to nonprofit rates," says the publisher of a large-circulation, nonprofit magazine that has substantial advertising content. "Yet, like all other second class publications, they themselves get a rate break." (Regular second class rates, though not Government subsidized, are kept lower than other regular rates because the Postal Service must, when recommending rates, take into account periodicals' role in disseminating information to the public. In theory, second class rates are supported by other regular rate mail classes, which pay higher markups to cover the "institutional" or overhead portion of second class costs. Of course, some publishers argue that the Postal Service's cost assignment methods do not accurately reflect reality. They contend that, given second class mailer's mail preparation efforts, second class rates *should* be relatively low, and that the recent 18 percent average increase in second class rates is certainly unjustified.)

"I say, if you want to talk about

preferential treatment, let's talk about the fact that practically every [paid circulation] business magazine ever purchased is bought at the taxpayers' expense—written off as a business expense by the company," continues this nonprofit publisher. "There are abuses of preferred rates, but there are also a lot of people out there who make millions of dollars per year and pay no taxes. Is that right?"

Still, there's no denying that nonprofits do compete with for-profits, and that some compete more than others. According to the PRC, 45 percent of nonprofit second class publications contain more than 10 percent advertising. (Those with less than 10 percent advertising are allowed to pay nonprofit editorial rates on the entire content of their magazines.) The PRC also reports, however, that less than 25 percent of nonprofit second class volume carries advertising content that is in excess of 25 percent.

Smithsonian, *National Geographic*, *Traveler*, *Modern Maturity*, *Ms.* (until it was sold last year to Fairfax Publications and dropped its nonprofit status) and, on the business and professional side, medical and other professional journals that consistently run large numbers of ad pages, are among the magazines published by nonprofit organizations that are often cited as posing significant advertising competition.

Nonprofits, however, contend that their advertising still amounts to a very small fraction of all magazine advertising. Furthermore, they say, their publications make valuable—sometimes unique—contributions to public knowledge. "In my opinion, most of these for-profits that complain about competition from nonprofits are, editorially, truly not as informative, or scientific, or worthy as the nonprofits," asserts MacArthur. "On the other hand, some of them might very well qualify for nonprofit status on educational grounds—if they're willing to renounce profit. I seriously doubt that many of them are ready to do that."

Others, of course, dispute nonprofits' unique editorial value. Denison Hatch, publisher of "Who's Mailing What," a newsletter read by business mailers, contends that *Ms.*, which caused quite a stir when it went nonprofit in 1979, was but one example of unfair competition by nonprofit magazines. "By going nonprofit, *Ms.* wan-

tonly undercut sisterhood publications—magazines that are just as worthy as *Ms.* in terms of fulfilling the needs of their women readers: *Savvy*, *Working Woman*, *Working Mother*, *Redbook*—perhaps even *Ladies' Home Journal*, *McCall's* and *Cosmopolitan*," Hatch wrote. "Yet, they are out in the marketplace competing for the same advertisers, chasing down the same universe of subscribers and hiring the same authors to write on the very same subjects . . ."

Such a contention would undoubtedly be greeted ironically by *Ms.* founders Patricia Carbine and Gloria Steinem, who made no profit from the magazine's sale, but are being kept on for five years as "comfortably" paid consultants. Prior to the sale, the two were struggling to keep the magazine going. Ad pages had dropped from a peak of 653 in 1984 to 475 in 1986. A major reason, according to some advertising agency executives, was that *Ms.* was considered to have too feminist and militant an image, in comparison with the for-profit magazines with which it competes.

Still, there are those who contend that a magazine that is unable to compete is simply out of touch and is not really performing a useful function. Why then, they ask, should taxpayers or other mailers subsidize such a magazine? "The Government should not be subsidizing mediocre businesses," asserts Hatch. "But I would say that there might be exceptions, like *Consumer Reports*, which takes no ads and is fiercely independent, or some of the scholarly journals, like the *New England Journal of Medicine*."

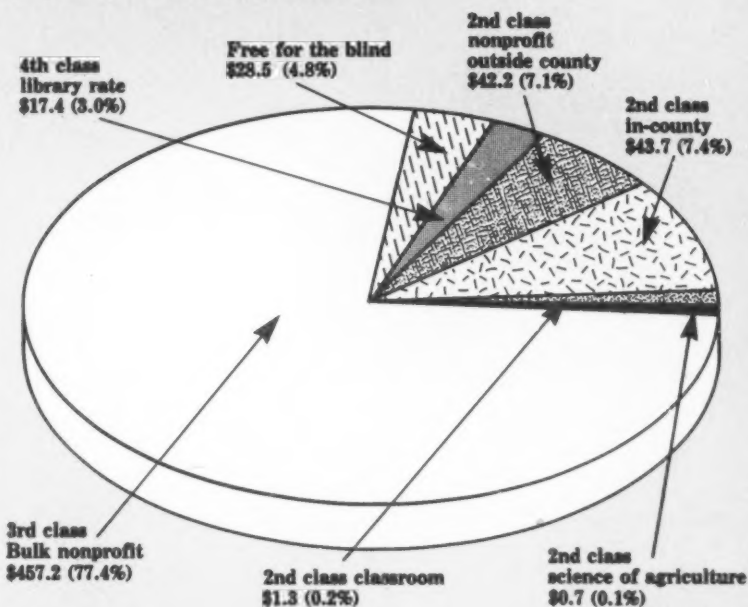
Responds MacArthur: "In a nation founded on the right of free and varied expression, the loss of each and every publication, nonprofit or otherwise, makes us all the poorer."

The problem is that editorial value and differences in editorial mission are subjective and could be argued endlessly; the Postal Service has neither the resources nor the desire to try to resolve such arguments.

Ian Volner, an attorney with the Washington firm Cohn and Marks, has seen the preferred issue from a number of viewpoints. He has worked as legal counsel to the Third Class Mailers Association (whose membership consists in large part of commercial mailers) and the Association of American Publishers (whose members

Revenue forgone appropriations: The breakdown by mail category

(Fiscal year 1987: \$millions)



Source: U.S. Postal Service

Third class nonprofit accounts for the lion's share—over 75 percent—of all revenue forgone appropriations each year, as is clear from this breakdown for FY 1987. Not surprisingly, this category is the focal point of Congressional attempts to cut nonprofit mail subsidies and curb abuses.

are book publishers); he has also helped nonprofits like *Harper's* get their nonprofit status.

"If a magazine has a legitimate purpose that serves the public, and if the

"Politicians are never eager to upset powerful nonprofit organizations—least of all in an election year."

foundation running the magazine is doing more than just publishing the magazine, I have no problem with it getting nonprofit status or rates," he says. "I have no problem with *National Geographic*, or *Smithsonian*, or *Harper's*," each of which has a foundation that funds scientific or cultural research or

activities, sponsors programs encouraging new authors or artists, or otherwise contributes to the public good, he says. "But if all a foundation is doing is publishing a magazine, it doesn't seem to me that they should be getting preferred rates on the advertising portion."

As previously noted, Congress did allocate the Postal Service's full requested subsidy for preferred rates for FY '88, which ends in September. Furthermore, given that this is an election year, and that the third class mailing rates of powerful constituencies such as churches and major charitable organizations are at stake, it is unlikely that either the revenue forgone subsidy or the general structure of preferred rates will be tampered with to any significant degree for FY '89.

However, when budget hearings for FY '90 begin, the status quo might be shaken up, according to sources on all sides of the preferred rate issue. In fact, it is actually possible that the revenue forgone subsidy might be eliminated. The PRC itself, in its report

New postal rates: Nonprofit vs. for-profit

Second class

	For-profit	Nonprofit
Nonadvertising:	12.4¢/pd	9.2¢
Advertising:		
Zone 1 & 2	16.5¢	12.3¢
Zone 3	17.4	12.9
Zone 4	19.1	14.2
Zone 5	21.6	16.2
Zone 6	24.3	18.4
Zone 7	27.5	20.9
Zone 8	30.2	23.1
Per piece		
Level A	16.0¢	13.1¢
Level B	12.4	9.5
Level C	9.9	7.4
SCF discount	(1.0)	(1.0)
Nonadvertising difference	(4.0)	(2.0)

Third class

Minimum per piece:		
Required pre-sort	16.7¢	9.0¢
5 digits	13.2	8.2
Carrier route	10.1	5.9
Pound rate:		
Carrier route	48.0¢ /pound	28.0¢ /pound
Required pre-sort	48.0¢ plus	28.0¢ plus
	6.6¢ per piece	3.1¢ per piece
5 digits	48.0¢ plus	28.0¢ plus
	3.1¢ per piece	2.3¢ per piece

Zip + 4 mail

Minimum per piece:		
Required pre-sort	16.2¢	8.5¢
5 digits	12.7	7.7
Pre-bar coded plus pre-sorted to 5 digits	12.2	7.2

pay a larger portion of institutional (postal "overhead") costs, as well as costs directly attributable to their own subclasses. (Under the current system, the revenue forgone subsidy exists to cover the institutional costs not received from preferred mailers by the Postal Service, which is required, by law, to operate on a break-even basis. The law states that rates for mail that was eligible for preferred rates prior to the 1970 Postal Reorganization Act may not exceed its direct and indirect attributable postal costs so long as Congress appropriates the money to make up the difference—the "revenue forgone.")

In addition, as the PRC noted, the unsubsidized subclass setup "would allow the Postal Service and mailers to participate in determining appropriate rates for [preferred] mail." This would seem only fair, since other mailers, instead of taxpayers in general, would then be paying, in the form of higher postal rates, for whatever revenue shortfall remains from preferred mail. Under these circumstances, regular rate mailers would do everything possible to minimize costs to themselves. This could result in pressure for higher rates for some or all preferred classes.

Scrutinizing eligibility

If the subsidies are eliminated, there will also be increased pressure on Congress to narrow nonprofit eligibility definitions. "If the regular rate mailers get stuck with the bill [for preferred rates], then, yes, Congress should certainly restrict eligibility, particularly in third class nonprofit, which accounts for such a large portion of the total costs," says David Minton, counsel on postal matters for Magazine Publishers of America, Inc. (MPA). "MPA's position is that nonprofit third class rates should be used only for legitimate fundraising activities by nonprofit organizations—not for promoting the sale of goods and services, such as Metropolitan Museum of Art calendars."

Over the years, the MPA has occasionally made proposals to limit preferred eligibility and nonprofit costs (such as recommending that nonprofits pay regular rates on all second class advertising content). However, the association has never advocated elimination of preferred rates. MPA counts a few nonprofits among its many for-profit consumer magazine members; presumably, the for-profit majority has not felt

The gap between for-profit and nonprofit mailing rates has been steadily closing in recent years. Although a substantial differential still exists, nonprofits were hit even harder by rate increases than for-profits in this latest rate case—at least in second class. Nonprofit second and third class rates rose 24.1 percent and 6.9 percent, respectively, as compared with 18 percent and 25 percent increases for second and third class regular rates.

to Congress, recommended elimination of the subsidy. Of course, eliminating the subsidy is a decision that would have to be made by Congress, not the PRC or Postal Service.

Moreover, because of the political clout of preferred mailers, Congress would almost certainly preserve some rate breaks for these mailers, even if it eliminated the Government subsidies. To wit: The PRC recommended that unsubsidized subclasses be created for

the various preferred rates, but it also assumed that Congress would want to maintain some "favorable rate treatment" for mail currently benefiting from the subsidies.

Under such a subclass system, the rate advantages for preferred mailers, which have already been reduced in recent years (in part because of the elimination of phasing) would probably be smaller. One reason is that these mailers would begin on a regular basis to

threatened enough by the nonprofits to force a major confrontation. Nor has MPA opposed the revenue forgone concept. After all, its own for-profit members, like other mailers, would see their rates rise if subsidies were eliminated and regular rates were required to pay the nonprofits' share of overhead costs.

However, as Minton points out, the elimination of the subsidy would be borne mainly by first class, not other classes. "We certainly don't want to pay to support preferred rates, but the impact on us would be relatively small," he says. Naturally, the same is true for business magazine publishers; in pushing to kill the subsidy, ABP reasons that the possibility of putting nonprofit magazines on a more even competitive basis, rate-wise, "would be of more benefit than the downside" of risking a slight increase in regular second class rates, according to Moeller.

(ABP may or may not be planning to continue its heretofore nearly total opposition to the nonprofit subsidy. At press time, Wyatt and Saltzstein, legal representatives for ABP, would comment only that "ABP continues to support strong enforcement of the unrelated business income tax by the Internal Revenue Service and supports the closing of loopholes used by some tax exempt organizations to avoid paying the tax.")

PRC and industry stances

Before Congress ever deals with the issue of actually eliminating preferred rate subsidies, it may well move to restrict nonprofit postal eligibility as part of its quest to reduce the deficit. Some think Congressional hearings about eligibility might be held as early as this year, even if election politics prevent reforms from actually being implemented for some time.

The PRC, in making several recommendations to restrict eligibility, stressed that the question of fair competition "would persist even if subsidies from the Treasury were totally eliminated by the 'subclass' mechanism," since preferred mailers would still enjoy some kind of a rate advantage. "Complaints of competitive unfairness arise today because we permit qualifying organizations access to the preferred rates for virtually any mailing activity. That problem can be resolved only by making distinctions among their activities that reflect as

closely as possible the real purpose of the rate preference," the Commission stated.

Since the PRC's report, only two of its preferred mailing recommendations have been acted upon: the in-county rate eligibility restrictions, and the initiation of a different system of calculating revenue forgone (called the "equal markup" system), which immediately resulted in a significant drop in the subsidy amount requested by the Postal Service.

If Congress decides to take on preferred eligibility questions, it will

"The eligibility for preferred mailing status is likely to be curtailed, whether or not the subsidy is eliminated."

still have to consider several other eligibility recommendations made by the PRC, as well as the positions taken by major mailers in relation to these recommendations. What follow are capsuleizations of those affecting the third and second class nonprofit categories:

- *Commercial uses reduction.* To reduce the 28 percent of nonprofit third class bulk mail that promotes or sells articles, products, services, insurance or travel arrangements, the PRC recommended that Congress allow preferred rates to be used only when "the activity or thing being advertised is substantially related, otherwise than just by raising funds, to the purpose of the nonprofit organization." Example: A Native American welfare organization selling handmade crafts that contribute to its programs would qualify; a college selling clocks bearing its seal would not, because the items would not have "the requisite relationship with the college's educational mission." The PRC also recommended that all travel and insurance promotions be made to pay full rates. It estimated that these actions would eliminate half of all third class advertising.

The Third Class Mailers Association (TCMA), which has both for-profit and nonprofit members, con-

tends that if preferred rates are to be maintained on the theory of public good, the Government should subsidize them, not mailers, according to Gene Del Polito, executive director of TCMA. However, if the subsidy is eliminated, TCMA agrees that preferred rates should be put into a subclass system and should pay a "fair contribution" to institutional costs. Congress must also take steps to eliminate abuses; the PRC's solution as described above, however, is viewed as going too far because it rules out all travel and insurance promotions. "A church pilgrimage should be legitimate," says Del Polito.

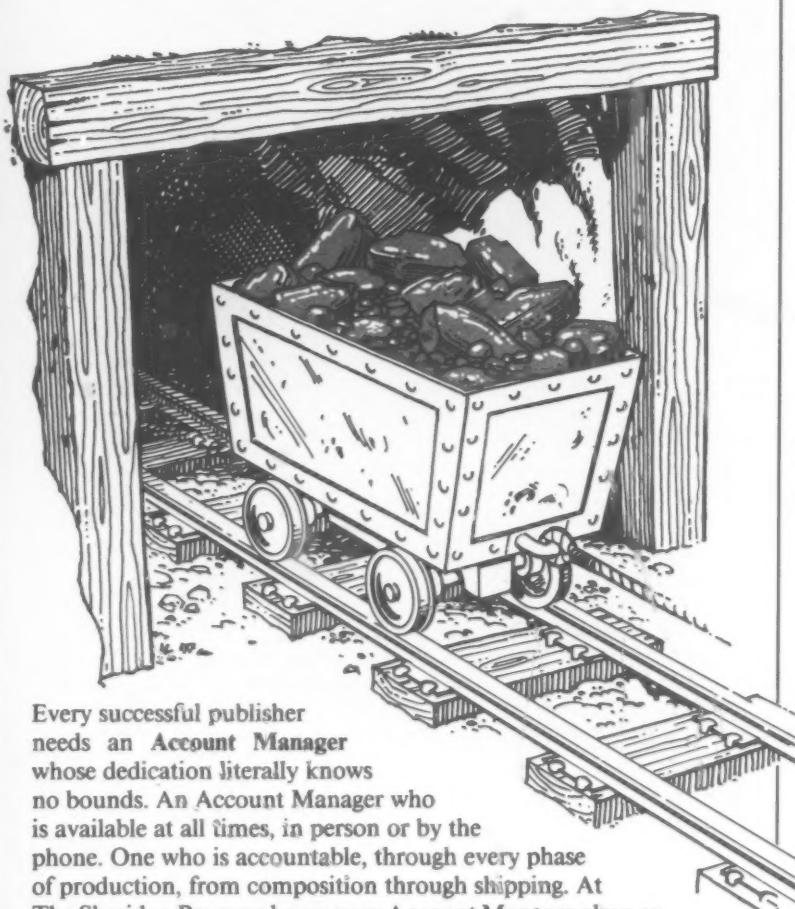
The position of the Alliance for Nonprofit Mailers, as described by executive director Dan Dougherty, is very similar to that of TCMA. This association contends that stricter enforcement of existing postal regulations would eliminate many of the commercial abuses. While agreeing that eligibility regulations should also be tightened, it contends that the PRC's recommendations go too far.

At press time, TCMA, the Alliance, the Direct Marketing Association and several other associations whose members are major third class mailers were working together to come up with a mutually agreeable proposal on how Congress might limit eligibility to curb commercial abuses.

- *Third class and advocacy mailings.* After the main preferred rate study, Congress asked the PRC to conduct a separate study on advocacy mailings, and to suggest how eligibility requirements could be changed to stop the use of nonprofit third class permits for lobbying efforts. The PRC recommended that "an organization intending to engage in the political activity Congress chose not to subsidize [lobbying] could be required to take out two permits: one for use with the reduced rates (for nonpolitical mail), and one merely to identify it as an otherwise eligible nonprofit entity that on this occasion was sending ineligible mail."

- *Defining nonprofit educational organizations.* The PRC noted that the definition of a nonprofit educational organization, for purposes of preferred rates, is quite broad, and may be used for purposes not originally intended by Congress, including "widely distributed publications containing a large volume of advertising." (Many nonprofit mag-

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azines are eligible for preferred rates on educational grounds.) Noting that Congress actually intended that there be a "teacher-student" interaction, the PRC concluded that for second class nonprofit privileges Congress might be willing to count the relationship between a magazine and its subscribers or recipients as an educational relationship, since the reader is either paying for or requesting the magazine. However, it added that Congress might require an actual teacher-student relation in order for a publication to qualify for a third class nonprofit permit under the educational category.

• *Second class nonprofit eligibility.*

"No matter what tack Congress eventually takes in addressing preferred rate issues, some mailers are bound to be unhappy."

The PRC recommended that the editorial portion rate be preserved for all nonprofit publications, but that the 45 percent of nonprofit publications that have more than minimal (10 percent) advertising content be made to pay regular second class advertising rates on their advertising portions.

The MPA came out in favor of this solution, surprising some watchers. "[Former MPA President William] Gorog got some criticism from nonprofits for that position," says a Washington source not connected to the MPA who has been actively involved in postal rate battles for several years. "But political support for revenue forgone is weakening, and Congress will no longer react well to the attitude, 'Don't you dare even touch my subsidy.' The MPA approach is a reasonable compromise; it will probably end up protecting nonprofit magazines in the long run by pre-empting a more drastic approach."

Clearly, Congress and the postal authorities have a long road ahead in sorting out the pros and cons and numerous proposals relating to preferred rates. One thing is certain: Whatever the resolution, some mailers will be unhappy with it. □

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